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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES  
OFFICE OF CREDIT UNIONS  
JOHN J. KOLHOFF  
DIRECTOR

ANNETTE E. FLOOD  
DIRECTOR

**DATE:** February 21, 2014

**LETTER NO.:** 2014-CU-01

**TO:** The Board of Directors and Management of Michigan State-Chartered Credit Unions

**SUBJECT:** The purpose of this letter is to report to the credit union industry the activities of the Office of Credit Unions over the 2013 calendar year.

The Office of Credit Unions (OCU) regulates and supervises state-chartered credit unions under the authority of the following statutes:

- Michigan Credit Union Act (2003 PA 215)
- Credit Union Multiple-Party Account Act (1968 PA 41)
- Beneficiary Accounts Act Credit Union Regulation (1992 PA 31)
- Electronic Funds Transfer Act (1978 PA 322)

The office ensures Michigan's state-chartered credit unions are operating safely and soundly, public confidence in the system is maintained, and the interests of depositors, creditors, and shareholders are protected. Under the Michigan Credit Union Act (MCUA), OCU issued three Cease and Desist Orders to credit unions during 2013, one Prohibition against an individual was issued and two credit unions were liquidated.

OCU staff is comprised of 48 full-time employees. The Examination section consists of 42 full-time employees and includes 34 examiners whose primary function is to examine the condition of credit unions; five examiners who perform IT related examinations in state-chartered credit unions, banks and their third-party service providers, one administrative assistant, an Assistant Director and one support employee. The Corporate Review section includes four staff members responsible for corporate activities for all Michigan chartered depositories. Administratively the office includes one support employee and the Director.

OCU provides extensive staff training and professional development opportunities. During 2013, staff members attended training sponsored by the Nation Credit Union Administration (NCUA), the National Association of State Credit Union Supervisors (NASCUS), and other professional organizations. In 2013, beyond two meetings with the Director's Credit Union Advisory Council, OCU also conducted its third annual Industry Day as a forum for regulated credit unions. The Industry Day session included all OCU staff members and interested industry participants to jointly discuss issues relevant to the industry, including the examination process.

The MCUA requires Michigan credit unions to be federally insured. The OCU works with the NCUA, which administers the National Credit Union Share Insurance Fund (NCUSIF), to manage NCUSIF risk. NCUA places substantial reliance on the office's examination and supervisory activities, and NCUA and OCU management meet as necessary to discuss emerging issues, institutions requiring more than normal supervision, and other matters of mutual interest.

## **ACTIVITY SUMMARY**

### Examination and Supervision

The office uses a "risk-based" examination process, focusing on material areas of risk unique to each credit union. Credit unions are monitored between examinations using financial reports and other information filed by each institution.

During 2013, staff completed 243 safety and soundness reports on state-chartered credit unions. Reports included 182 examination and 61 follow-up visitations at credit unions requiring additional supervision. Sixty-nine examinations and 30 follow-ups were conducted jointly with the NCUA. OCU staff also performed information technology examination reports at 50 credit unions and several third-party service providers during the year. OCU also conducted one CUSO related examination and responded to two ratings appeal requests during the year.

Corporate applications submitted in calendar year 2013 remained higher than average. One application requesting to convert from a federal charter to a Michigan state-chartered credit union was received with a total of four conversions finalized during the year. OCU accepted for filing fifteen merger applications and thirteen were finalized. Thirty field of membership applications were received and 32 were finalized. Other corporate applications for bylaw changes and/or certificate of organization amendments completed during the year totaled 37.

OCU maintained NASCUS Accreditation of its regulatory program. Michigan was the first state accredited under the program in 1989, and has maintained that status every consecutive year.

## **INDUSTRY TRENDS**

Overall, Michigan's state-chartered credit unions remained in sound financial and operational condition during 2013. Although the number of Michigan credit unions declined, total assets increased 8.7% or \$2.8 billion to \$34.9 billion.

The number of Michigan state-chartered credit unions declined from 192 to 186 during 2013, primarily due to mergers between institutions.

While generally market driven, mergers also occur because of serious operational or safety and soundness concerns. Larger, well-run credit unions can absorb troubled institutions with minimal negative impact and often provide a higher level of financial services for the members

of the merged credit union. Merger activity is forecasted to remain high. Five additional state charters, or 83% of the net charters lost in 2013, have merged into other state credit unions effective January 2014.

#### Industry Associations

OCU senior staff members were featured speakers on various topics for meetings of the Michigan Credit Union League, Credit Union National Association, the Michigan Association of Certified Public Accountants and other organizations.

Assistant Director Leanne O'Brien is involved as an Educational Committee member with NASCUS, working to enhance educational opportunities for examiners and the credit union industry.

During 2013, OCU Director John J. Kolhoff served on the NASCUS Board and was elected as Board Chair. As Chair, Kolhoff represents Michigan and state chartered credit unions throughout the country in policy discussions with the state and federal legislative and executive branches. Kolhoff interacts with organizations representing regulators and industry participants including the Michigan Credit Union League, Federal Financial Institutions Examination Council, National Credit Union Administration, Consumer Finance Protection Bureau, Credit Union National Association, National Association of Federal Credit Unions, and National Association of Credit Union Service Organizations. Kolhoff is also a state liaison member of the Information Sharing Task Force of the Federal Financial Institutions Examination Council, working to ensure data integrity between the financial institution regulators.

OCU staff members are also actively involved in several ongoing and ad hoc NCUA Task Forces on many issues facing the industry, credit union regulation and examination efficiency.

Sincerely,

A handwritten signature in black ink, reading "John J. Kolhoff". The signature is fluid and cursive, with the first name "John" and last name "Kolhoff" clearly legible.

John J. Kolhoff  
Director  
Office of Credit Unions